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## A Question of Authority — The Federal Circuit’s Criticism of the POP in Windy City

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The Federal Circuit recently dealt a blow to the Patent Trial and Appeal Board and, in particular, to the POP opinion process that has been frequently used over the past year to establish precedent for post-grant review proceedings. In overturning the Patent Trial and Appeal Board (PTAB) ruling in *Proppant Express Investments, LLC et al. v. Oren Tech., LLC*, the Federal Circuit panel in *Facebook, Inc. v. Windy City Innovations, LLC* took the extraordinary step of including “additional views” that questioned the authority of PTAB panels to do more than establish basic rules to carry out the statutory requirements of the America Invents Act (AIA). Moreover, the *Windy City* ruling reinforces the one-year statutory bar for filing petitions and closed a loophole from *Proppant Express* that enabled a party to join its own,



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earlier-filed petitions even after the expiration of the one-year statutory filing period.

*Windy City* could have lasting effects on the rulemaking authority of the PTAB. The Court made clear that, at least in this instance; the PTAB was not entitled to *Chevron* deference when interpreting the AIA. However, while the ruling was a net loss for the PTAB, it includes guidance toward practical considerations that petitioners should consider

when seeking institution of post-grant proceedings.

### Procedural Background

In June 2015 Windy City sued Facebook for patent infringement over four patents related to methods of communicating over a computer network. In June 2016, one year after being sued for infringement, Facebook timely filed petitions for *inter partes* review (IPR) challenging selected claims from each of the four asserted patents (First

Petitions). At the time the First Petitions were filed, Windy City had not yet identified the specific claims it intended to assert in the underlying district court litigation. Once Windy City identified those claims in January 2017 pursuant to the **Local Rules of the Western District of North Carolina**, Facebook filed additional IPR petitions (Second and Third Petitions) along with a motion seeking to join the Second and Third Petitions with the timely-filed First Petitions. The PTAB, citing *Proppant Express*, granted Facebook's request even though the Second and Third Petitions were filed well after the one-year statutory deadline.

The PTAB ultimately allowed joinder of the First, Second and Third Petitions, and found claims from each of the patents to be unpatentable (including some claims challenged only in the Second and Third Petitions). Windy City appealed the Final Written Decision, and in March the Federal Circuit struck down the decision. The Federal Circuit held that the PTAB overstepped its bounds in *Proppant Express* when it allowed same-party joinder and the joinder of timely and untimely petitions.

#### **Federal Circuit Decision in *Windy City***

The Federal Circuit analysis of the joinder provision in 35 U.S.C. § 315(c) is thorough and exhaustive.

The court analyzed the statute in question, determined there was no ambiguity, and overturned the PTAB precedent established in *Proppant Express*. The court also acknowledged that two of the members of the PTAB panel handling the Facebook petitions had reservations about allowing the proposed joinder despite the fact that “the Director repeatedly has taken the position ... that such same-party joinder is permitted by § 315(c)’ and the concurring APJs agreed to follow that position in this case, ‘[d]espite [their] disagreement with the Director’s interpretation.’” The court agreed with the misgivings of the panel members and, at the end of the day, made clear that: (1) a party cannot be joined to itself in later-filed petitions; and (2) later-filed petitions cannot take advantage of the loophole established in *Proppant Express* to overcome the one-year statutory bar for filing petitions set out in § 315(b).

#### **Impact on Joinder**

What led to the need to file the Second and Third Petitions out of time and the need to seek joinder with the First Petitions? First, from the outset Facebook pursued a motion to dismiss the pleadings as inadequately stating a claim for patent infringement, including because the complaint did not include the asserted claims. While the Western District’s Local Rules, which called for the disclosure of asserted claims not later than

30 days after the issuance of a scheduling order, Facebook pursued the motion to dismiss, and that briefing process served to postpone the scheduling conference until after the one year deadline for filing a petition for *inter partes* review. Moreover, the four patents asserted by Windy City included a collective total of 830 claims, making it very difficult for Facebook to challenge every claim in a petition. At the end of the day, the delay in triggering the Western District’s disclosure rules caused Facebook to file the First Petitions challenging only a small subset of the claims included in the asserted patents.

Unsurprisingly, once Windy City identified the claims it intended to pursue under the Local Rules, there was not precise overlap between the asserted claims and the claims challenged in the First Petitions. Faced with these facts, Facebook filed the Second and Third Petitions and lobbied the PTAB to allow it to join the Second and Third Petitions to the First Petitions despite the fact that: (1) Facebook was already a party to the First Petitions; and (2) the Second and Third Petitions were filed more than one year after Facebook had been served with Windy City’s complaint.

So what does this mean for parties facing circumstances similar to those experienced by Facebook? There are several steps that a defendant in a patent

case should take to avoid the pitfalls identified in *Windy City*.

First, the defendant should take the obvious step of ensuring that the plaintiff identifies the claims it intends to assert as quickly as possible. This involves two primary prongs. First, the defendant should focus on the local rules to determine if and when a plaintiff is required to disclose its asserted claims and patent infringement contentions. The Western District's Local Patent Rules mandate that these claims be identified within 30 days of a scheduling conference. With that in mind, defendants must ensure that whatever tactical steps they take in a case – such as filing motions to dismiss — they do not make a strategic error that prevents them from filing a focused IPR petition before the one-year statutory deadline.

Second, if the local rules do not provide for the disclosure of asserted claims by a given deadline, the defendant should call the court's attention to the one-year statutory deadline for filing petitions for IPR and enlist the court's assistance in making the plaintiff identify its infringement contentions well in advance of statutory bar date. The facts of *Windy City* should provide ample evidence of the dilemma faced by defendants and the need for the prompt identification of asserted

claims that can be timely challenged at the PTAB. The early identification of the issue to the court should hopefully prevent later gamesmanship if the plaintiff holds the asserted claims hostage in an effort to invoke the one-year statutory bar and prevent the defendant from filing a post-grant challenge.

Finally, if there are no local rules related to patent cases and the court refuses to speed up the identification of asserted claims, then the defendant is left with little choice but to challenge the patentability of the patent claims it feels to be most threatening. This may result in the need to file multiple petitions directed to select claims in one or more asserted patents—a time consuming and expensive task. Unfortunately, because there is no direct tie between district court and PTAB proceedings, and no formal coordination between the two venues, there may be no other alternative if a defendant intends to challenge numerous claims in the asserted patent(s).

### **Impact on Rulemaking**

#### **Authority of the PTAB**

The Federal Circuit decision in *Windy City* goes past the immediate issue of joinder. The Federal Circuit went so far as to offer “Additional Views” concerning what deference should be afforded the Board and the Director going forward. The Additional Views suggest

that both petitioners and patent owners should be cautious when relying on any PTAB panel's — including the POP's — interpretation of the statutory provisions of the AIA.

Historically, the Federal Circuit gave no deference to nonprecedential Board decisions. The *Windy City* panel took this to another level, noting that the Director and the Board only have authority to prescribe regulations for carrying out the statutory language included in the AIA.

Moreover, the Federal Circuit took aim at the statutory interpretation in *Proppant Express*:

Notably absent from the AIA, accordingly, is any congressional authorization, for either the Director or the Board, to undertake statutory interpretation through POP opinions. Thus, just as we give no deference to nonprecedential Board decisions, we see no reason to afford deference to POP opinions.[1]

This relatively harsh criticism of the Board and the Director can be viewed in two ways. In the context of *Windy City*, the Court clearly disapproved of the POP effort at statutory interpretation. But a broader reading of this statement suggests that the Federal Circuit will not give deference to *any* POP decision, regardless of whether it relates to statutory interpretation. The Federal Circuit explicitly noted that “the government refuses to address the question

of how far the position it takes on *Chevron* deference in this case would extend into our review of interpretations of patentability provisions addressed in other POP opinions,” which in the view of the Court was “no small matter.” Accordingly, *Windy City* can be read as a “shot across the bow” when it comes to the Board’s and the Director’s interpretations of the Patent Act: the Board and the Director should confine their analyses to the application of that law to the facts present in each petition.

So what does this mean going forward? Clearly at least three Federal Circuit judges will frown on any future Board effort to interpret potentially ambiguous statutory provisions. But petitioners and defendants should also be cautious when Board precedent deviates from Federal Circuit precedent or clear statutory language on *any* issue. The notion that even POP opinions are subject to no deference seems to signal even more appeals of Board decisions in which the losing party will seek to argue a conflict in precedent or with clear statutory language.

Moreover, in order for a Board decision to be entitled to any sort of deference, the PTAB may need to reconsider the manner in which

it carries out the POP review process. For example, the Board argued that its decisions were entitled to *Chevron* deference because the POP procedure was a highly structured process that included public notice, briefing, and an oral hearing. The Federal Circuit disagreed, finding that the POP process “falls short of traditional notice-and-comment rulemaking that could receive *Chevron* deference.” If the POP wants its decisions to receive deference from the Federal Circuit, it likely needs to model the process on the notice-and-comment rulemaking procedures that were the focus of the *Windy City* Court. For example, if the POP were to expand the procedure to include publication in the Federal Register, the invitation for and response to public comments, and the publication of the result of the formal hearing, that would be a step towards the procedural elements that are a requirement for the deference it seeks. However, as noted by the *Windy City* Court, the structure of the Patent Office mandates a division of authority, and the Director is not truly a “single delegee” with both rulemaking and adjudicatory powers. This fact, along with the limited rulemaking authority granted under the AIA, may

foreclose *Chevron* deference to POP and Board decisions.

At the end of the day, *Windy City* stands as an example of the growing pains of the post-grant review process and what could be perceived as rising tension between the Board and the Federal Circuit. Nevertheless, this is likely just an example of inevitable conflict that will arise as the Board is forced to juggle Federal Circuit precedent with its efforts to carry out both the direction and spirit of the AIA in view of the underlying tension associated with parallel district court proceedings.

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